

FOREIGN POLICY BULLETIN

An interpretation of current international events by the Research Staff of the Foreign Policy Association

FOREIGN POLICY ASSOCIATION, Incorporated

22 East 38th Street, New York 16, N. Y.

VOL. XXV, No. 42

AUGUST 2, 1946

ECONOMIC QUESTIONS PARAMOUNT AT PEACE CONFERENCE

THE general peace conference of twenty-one nations, participants in the war against the Axis in Europe, opened in Paris on July 29 in an atmosphere heavy with mounting tension between Russia and the Western powers. In a fundamental sense, as Dr. Herbert V. Evatt, Australia's fighting Foreign Minister, pointed out in a broadcast of July 15, the peace settlement drafted by the Big Four and now submitted for review to seventeen smaller nations, had already been determined by the wartime commitments of the great powers and by post-war developments on the continent. Since Germany and Austria are not on the Paris agenda, discussion perforce will have to be limited to the problems of Italy and Eastern Europe. If we look at these problems with a minimum of wishful thinking, what are the main trends we discern?

RUSSIA'S ECONOMIC STAKE IN EASTERN EUROPE. From the point of view of the Paris conferencees, the most important clauses of the draft treaties with Finland, Rumania, Hungary and Bulgaria, largely modeled on the armistice agreements of 1944, are not those dealing with territorial changes, which have already been consummated, but those concerning reparations. Under the armistice agreements, each of the first three of these countries pledged itself to pay \$300,000,000 in reparations to Russia (in the case of Hungary also to Czechoslovakia and Yugoslavia) over a period of years, Bulgaria being excepted, presumably because of the readiness of its government to collaborate with Moscow. Since the conclusion of the armistices Russia has been collecting reparations from the Axis satellites, mostly in the form of their existing assets and the current production of their fields and factories. In addition, Russian armies of occupation have been living "off the land" in Rumania, Hungary and Bul-

garia, thus markedly reducing the amount of food available to the people of these countries.

The United States has long been disturbed by the effect these reparation and occupation burdens would have on the economies of the Axis satellites, and finally expressed both its dissatisfaction and its fears in a blunt note addressed to the Soviet government on July 23 by General W. Bedell Smith, American Ambassador to Moscow. In this note General Smith estimated that Russia is taking half of Hungary's industrial production (in the case of some items as much as 80 or 90 per cent); declared that this situation is directly responsible for the dangerous inflation suffered by Hungary; refuted the Russian claim that the United States had weakened the country's economy by retaining some of its assets abroad; and stated that, on the contrary, the United States is on the point of returning \$32,000,000 in gold which a wartime Hungarian government had sent to Austria for safekeeping. Moreover, General Smith added that the Soviet government had rejected American proposals for cooperation by the Big Three in the rehabilitation of Hungary and in restoration of traffic on the Danube. The problems of freedom of trade in Eastern Europe, and freedom of navigation on the Danube, on which the Council of Foreign Ministers found it impossible to agree, are bound to be among the important unsettled points to be discussed at the Paris conference.

RUSSIA'S NEED FOR GOODS. It would be easier to deal with these problems if it could be assumed that Russia's principal objective in Eastern Europe and the Balkans is to disrupt the economies of the Axis satellites in order to pave the way for their communization and possibly their eventual integration into the U.S.S.R. As a matter of fact, however, Russia actually needs all the food, consumers' goods

Contents of this BULLETIN may be reprinted with credit to the Foreign Policy Association.

and industrial machinery it can obtain to fill the needs of its own population. It is willing to pay for imports when necessary, as indicated by its trade negotiations with Denmark and Sweden. From the point of view of the United States, it is unfair for Russia to obtain goods from the Axis satellites without compensation, as it is doing through the collection of reparations. It must be borne in mind, however, that the United States, whose industrial production was vastly expanded as a result of the war, and which suffered no loss of industrial equipment or raw materials, does not need reparations, and in any case would probably not want to import most of the manufactured goods produced in that area.

At the same time, the Russians themselves are beginning to realize that their methods of collecting reparations cannot, over the long run, win them the sympathy of the peoples of occupied countries. They will thus be confronted with the problem of either withdrawing their occupation forces and moderating their economic demands, or else of increasing military pressure on their neighbors. What is more serious for Russia, mere draining of the resources of these countries, without some attempt at their replenishment and development, will eventually amount to killing the goose that laid the golden egg. While collection of reparations may tide Russia over the arduous first year of readjustment at home, ultimately there is bound to come a condition of diminishing returns in obtaining manufactured goods that Russia will urgently need for years to come.

The resentment felt in occupied countries against Russia, however, should not be exaggerated. Many of the economic and social changes effected in the wake of Russian occupation had been advocated long before 1939 by political groups, by no means all Communists, who are now in power. If Russia can find some way of offering these countries a steady market for goods they may not find it possible to sell to the United States, it may eventually earn the support of large sections of their populations. This, for example, seems to be the result of the

provision in the Italian draft peace treaty concerning the payment by Italy of \$100,000,000 worth of reparations to the U.S.S.R., part of which is to come out of current production, with Russia supplying the raw materials. Reports from Italy indicate that the Italians, profoundly disillusioned by the failure of Britain and the United States to support their country in the peace negotiations, and to bolster it as a potential bulwark against further Russian advances in the Balkans and the Adriatic, are beginning to wonder whether they should not have sought the backing of Russia.

RESTORATION vs. DESIRE FOR CHANGE. Underlying the economic tug of war between Russia and the Western powers is the unresolved conflict all over Europe between those who favor restoration of pre-1939 values and institutions, and those who had hoped that the war would bring about far-reaching changes within and between nations. It is clearly in the interest of Russia to see the disappearance, or at least the incapacitation for action, of all elements on the continent who are hostile to the Soviet system. This creates the danger that the process of pursuing so-called Fascists may continue indefinitely on the pattern of Saturn eternally eating his children, with consequent perpetuation of civil strife. At the same time it is also clear that the war not only sharpened nationalism in every country to the point of neurosis, but also failed to bring about the inner purification that some had hoped for, and that would have proved an important counterweight to the influence of Communist thought. The men and women who fought heroically in resistance movements or languished in concentration camps for their opposition to native and German Nazism, return to their homelands to find, very frequently, those who had weathered the storm with relative safety restored to positions of power. Even if Russia did not exist, and Karl Marx had never set pen to paper, the disillusionment generated by these harsh realities might well lead to unrest and rebellion.

VERA MICHELES DEAN

SUPPORT OF CHINESE LIBERALS WOULD STRENGTHEN U.S. POSITION

SHANGHAI—United States policy in China cannot be understood or appraised without considering the extent to which it is affected by the state of American-Russian relations. Since Japan's surrender nearly a year ago relations between the United States and Russia in general have been tense both in China and the world at large. Moscow's policy in Manchuria has produced an unfavorable impression in the United States, while America's powerful influence over the Central Chinese government has aroused suspicion in Russia. Each country fears that the other wants to control China and to use it in future military operations.

So far, however, the political initiative in China has been taken by the United States. An American, not a Russian, general came to China to mediate; American, not Russian, military equipment has poured into China; Washington, not Moscow, is the capital toward which the Central Chinese government looks for economic and political support. This means not only that the United States has had an extraordinary opportunity to extend its power in China, but that it has assumed extraordinary risks. At the same time, it should be pointed out that the Central government is recognized by Russia, as well as by the United States, and that any aid or

even sympathy extended by Russia to Chinese Communists opposing that government is regarded in Nanking as an unfriendly act.

CHAMPIONS OF STATUS QUO? In using its political initiative in China the United States, while inevitably aware of the problems posed by its relations with the U.S.S.R., could make no greater mistake than to act solely, or even largely, on the basis of these relations as they exist at present. If it did so, it would be following a negative policy of merely opposing another power. What is needed is a positive policy of judging the Chinese situation on its own intrinsic merits and supporting, in actions as well as words, the groups that are likely to make this country the more prosperous, more modern nation it needs to be for its own sake and that of the world. In China, as in many countries, deeply anti-Russian sentiment and hostility toward modification of the internal *status quo* frequently go hand in hand. Consequently, alignment with the anti-Russian elements in China would be virtually synonymous with opposition to agrarian reforms, civil liberties and enlightened economic policies, desired by a large section of the nation.

The strength of the United States is so great that we can make mistakes and not pay for them immediately, but it would be dangerous to think that mistakes carry no price. In the long run the Chinese people will be alienated from any one who supports the less-enlightened elements in their country. It is therefore important to grasp without delay the lesson that many of us have not yet learned: that in foreign relations financial aid is a wholly inadequate substitute for political understanding of the peoples with whom we are dealing. The more we encourage democracy in China and actively oppose the militaristic pro-civil war elements, the more will American influence grow. But to back unpopular leaders for reasons of international policy is the most certain method of turning the Chinese people away from the United States.

SEEKING A COMMON GROUND. As a matter of fact, a policy of increasing American prestige

through encouragement of progressive Chinese groups would have a beneficial effect on American-Russian relations. It cannot be assumed that the United States and the Soviet Union will define "progressive groups" in precisely the same fashion, but an understanding that militaristic elements on either side favoring policies that lead to civil war are not included in this phrase would help to create a common ground for cooperation. At present our actions encourage militaristic leaders in the Central government, although our stated policy is quite properly one of conditional support of that government premised on the achievement of democratic unity and a coalition government.

The United States does not want a Communist government in power in China, but if there is to be any true coalition régime, the Chinese Communists, who have taken the lead in agrarian and many other reforms, will inevitably play an important role. Yet it would be extremely shortsighted to see the Chinese situation only in terms of two extremes—the Kuomintang right wing and the Communists—and to overlook the great mass of Chinese people, as well as many leaders, who stand in between. In the ranks of the government, the Kuomintang, the liberal Democratic League, and the non-partisans there are large numbers of men and women who, because of their democratic political philosophy, love of country, and the instinct of self-preservation, are deeply opposed to civil war. They desire, in varying degrees, to see an all-party Chinese government follow the path of reform.

Persons in this group who serve in the government or the Kuomintang do not hold controlling positions, but they would be stronger if American actions did not encourage their opponents. The United States is unquestionably right in wishing to preserve the form of the Central government as the framework for a new Chinese unity, but it would be an error to identify this structure with the governmental leaders who happen to prevail at any particular time, just as it would be a mistake to regard the United States government as the peculiar property of any specific leaders or political party. It is clear, however, that with every passing day our policy of large-scale material support of the powers-that-be in China is driving the middle group either to the right or to the left and making the alternatives in this country sharper than before.

LAWRENCE K. ROSINGER

(The third in a series of three articles, based on impressions gathered by Mr. Rosinger in the course of travel in various parts of China.)

Just Published—

ISSUES BEFORE PARIS PEACE CONFERENCE

by Vera Micheles Dean

25 cents

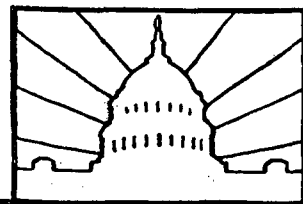
August 1 issue of FOREIGN POLICY REPORTS
REPORTS are issued on the 1st and 15th of each month
Subscription \$5; to FPA members, \$3

FOREIGN POLICY BULLETIN. Vol. XXV, No. 42, AUGUST 2, 1946. Published weekly by the Foreign Policy Association, Incorporated. National Headquarters, 22 East 38th Street, New York 16, N. Y. FRANK ROSS MCCOY, *President Emeritus*; DOROTHY F. LEE, *Secretary*; VERA MICHELES DEAN, *Editor*. Entered as second-class matter December 2, 1921, at the Post Office at New York, N. Y., under the Act of March 3, 1879. Three Dollars a Year. Please allow at least one month for change of address on membership publications.

F. P. A. Membership (which includes the Bulletin), Five Dollars a Year

Produced under union conditions and composed and printed by union labor.

Washington News Letter



PARTITION NO SOLUTION OF PALESTINE PROBLEM

The proposal of the Anglo-American Cabinet Committee that the United States and the United Kingdom undertake to partition Palestine into Jewish, Arab and central federal states poses a difficult political problem for President Truman. It also raises again the possibility of further delay in rescuing even a small number of central Europe's Jewry. Moreover, because of objections already voiced by both Zionists and Arabs to partition of Palestine, the new plan will further embitter the troubled Middle Eastern area.

PROBLEM OF THE 100,000. The proposal in the form the Committee submitted it to the United States government on July 25 would probably reduce to a minimum the disturbing anti-Semitic outbursts of the Arabs and the violent anti-Britishism of the Zionist Terrorists. For it would limit forever the Jewish immigration to Palestine by limiting the space that Jews can occupy, thereby ending both Jewish hopes that violence might win them concessions, and Arab fears of Jewish domination. But it would force the postponement, perhaps forever, of the emigration from Europe of Jews in the displaced persons' camps. It would also jeopardize the prospects of the 100,000 Jews whom President Truman last September requested British Prime Minister Attlee to admit at once into Palestine, and to whom, according to the Anglo-American Committee of Inquiry on April 20, certificates of immigration should be issued "immediately."

The President made his proposal to Attlee for the immigration of 100,000 more because of his concern for Europe than for the Middle East. Yet the Cabinet Committee proposals would authorize the migration of the 100,000 only after it is decided that the partition and the other suggested constitutional arrangements will be put into effect. This postponement not only links the immigration to constitutional reform, whereas Truman had advocated it as a separate step, but endangers the possibility that this immigration will ever take place. Should the constitutional arrangements proposed by the partition plan go into effect, future Arab support in the federal government for further Jewish immigration would be most unlikely.

For those reasons, it is possible that Truman will accept the Cabinet Committee proposals only on condition that the migration of the 100,000 is authorized at once. The obstacles in the way of such a recommendation are that Henry F. Grady, the representative of Secretary of State James F. Byrnes on the Committee, has strongly advocated American

acceptance of the proposals in their present form, and that President Truman has not in the past indicated he would provide the military support which Prime Minister Attlee has asked the United States to give to Britain if the 100,000 migrate. Yet another obstacle is the fact that the Office of Near Eastern and African Affairs in the State Department, which deals with Palestine, has in the past been out of sympathy with the proposal for the migration of 100,000, which Truman submitted to Attlee without the knowledge of that Office. At present, the British permit the migration of 1,500 Jews a month into Palestine.

PLAN OF BRITISH ORIGIN. Secretary of State Byrnes discussed the London proposals with Prime Minister Attlee in Paris last weekend. Truman will receive Mr. Byrnes' recommendations and, after study of their political implications in Europe, the Middle East and the United States, will either accept them or, as at present seems likely, propose their modification. The suggestion for partition came from the British members of the Cabinet Committee, although the British government ten years ago turned down another partition proposed by the Peel Commission. The new proposals have their origin in the statement which British Foreign Secretary Ernest Bevin made last November 13, to the effect that Palestine in time will become a self-governing Palestinian, not Jewish, state. The mandate under which Britain administers the government affairs of Palestine calls on the mandatory to "secure the establishment of the Jewish national home" and also to protect the "civil and religious rights"—but not the political rights—"of all the inhabitants of Palestine."

There is little hope that Britain's new plan will "solve" the Palestine problem. For by now most observers are keenly aware that there may be no final, all-embracing solution which can be regarded as realistic in terms of Middle Eastern politics. The Cabinet Committee's plans must now be submitted to both Jewish and Arab representatives, but it is doubtful whether joint discussions will follow. The new turn of events in the mandate, like those in Egypt, demonstrate Britain's determination to devise some more permanent arrangement. Perhaps under the circumstances Jews and Arabs will be ready to adopt a modified partition scheme. On the other hand, the whole issue may yet be submitted to the United Nations, either by the Arabs or some other member nation.

BLAIR BOLLES

A Special Meeting of the Foreign Policy Association, Incorporated,
will be held at the office of the Association, 22 East 38th Street, New York, N. Y.,
on Tuesday, August 27, 1946, at 4:30 P.M.

W. W. LANCASTER, Chairman of the Board

PURPOSE OF SPECIAL MEETING

At a meeting on July 17, 1946, the Board of Directors, considering that salaries, paper and printing costs, rents, and practically all other expenses of the Association have very greatly increased since 1919; that membership dues have not been increased since that time; that additional income is needed from Regular and Associate Memberships, none of which memberships, it is estimated, pays at present for its proportionate cost to the Association; that these increases in income are deemed necessary to permit the Association to expand, as well as continue, its usefulness for the objectives expressed in the Constitution; adopted the following Resolutions:

(1) "RESOLVED that the Board of Directors of the Foreign Policy Association recommends to the members of the Association that Article VII of the Constitution, paragraph numbered 4, now reading 'Regular Members, those persons who pay the regular annual dues of \$5', be amended to read: '*Regular Members, those persons who pay the regular annual dues of \$6*'; and that a special meeting of the Association be, and hereby is, called to be held at the office of the Association, 22 East 38th Street, New York, N. Y., on Tuesday, August 27, 1946, at 4:30 o'clock in the afternoon, for the purpose of voting on the adoption of said amendment; and that notice of such special meeting, specifying its purpose and setting forth the proposed amendment, shall be sent to the members of the Association through the official publication of the Association, at least two weeks before the proposed amendment is to be voted upon. *The purpose of the special meeting is to vote on the proposed amendment.*

The following Resolutions are listed only for your further information.

(2) "RESOLVED further by the Board, acting under authority granted to it in Article VII of the Constitution, that if and when the amendment referred to in Paragraph I above is adopted, the dues of the *Associate Members* be increased from \$3 to \$4."

(3) "RESOLVED further that all Regular and Associate Members in good standing on the day on which the amendment referred to in Paragraph I above is adopted (if adopted) shall have the privilege of one year's renewal at their present rates, respectively."

(4) "RESOLVED further that increases in dues mentioned in the above Resolutions shall be effective September 1, 1946."

Please note that proxies cannot be used unless

- 1. received at National Headquarters not later than Friday, August 23, 1946*
- 2. the proxy returned is signed by the member*

Only members of the Association who are citizens of the United States have voting privileges.

Please cut along this line and sign and return the proxy to the office of the Foreign Policy Association, Incorporated, 22 East 38th Street, New York 16, N. Y.

It is urgently requested that you sign and return this
proxy if you do not intend being present at this meeting.

PROXY

I nominate HERBERT L. MAY and CAROLYN MARTIN, or either of them, as my proxy to vote for me on the question of the adoption of the proposed amendment to Article VII of the Constitution at the special meeting of the Foreign Policy Association on August 27, 1946.

Date..... (Sign here).....
Member